

2 of 5

PAGE 01 BUENOS 00868 01 OF 02 301617Z
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E.O. 12065: XDS-1 1/29/10 (CASTRO, RAUL H.) OR-M
TAGS: PEPR AR
SUBJ: (C) DRAFT MEMORANDUM OF CONVERSATION: GENERAL GOODPASTER'S
VISIT TO ARGENTINA: GENERAL TRADE/GRAINS TOPICS: JANUARY 24

1. (C - ENTIRE TEXT.)

2. (COMMENT. SEPARATE TELEGRAM COVERS CONVERSATIONS HELD AT THE FOREIGN MINISTRY ON JANUARY 23 IN WHICH ECONOMY MINISTER MARTINEZ DE HOZ LED DISCUSSIONS OF ARGENTINA'S POSITION ON TOPICS RELATING TO TRADE IN GRAINS. THIS ACCOUNT IS OF THE FOLLOWING DAY. PARTICIPANTS WERE THE SAME. A SEPARATE SET OF TWO MESSAGES OUTLINES THOSE PARTS OF THE CONVERSATION ON GENERAL POLITICAL TOPICS LED BY FOREIGN MINISTER PASTOR.)

3. GENERAL GOOPASTER SAID THAT HE HAD CONSULTED WITH WASHINGTON, WHERE HE FOUND AGREEMENT THAT THE UNDERTAKINGS DISCUSSED THE PREVIOUS DAY WERE USEFUL AND POSITIVE. STILL THERE ARE QUESTIONS: WOULD THE SOVIET TRADING ENTITY ACCEPT LIMITATIONS AND AGREE TO LIVE WITHIN THEM? ARE DIVERSIONS WHICH WOULD CAUSE MARKET DISTORTIONS TO BE EXPECTED? SOME BETTER SYSTEM OF DESTINATION CONTROLS WOULD BE USEFUL AND WOULD MEET OUR NEED TO OVERCOME PRICE DIFFERENTIALS AND

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PAGE 02 BUENOS 00868 01 OF 02 301617Z
DISTORTIONS OF TRADING PATTERNS.

4. MARTINEZ DE HOZ REPLIED THAT HE HAD CHECKED WITH GRAINS BOARD AUTHORITIES AND BEEN ASSURED THAT THE

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2 of 5

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3 of 5

RUSSIANS HAD COMPLIED IN EARLIER ARRANGEMENTS. THEY KNOW, HE SAID, THAT ARGENTINA HAS MEANS OF SHOWING DISPLEASURE. AS FOR MARKET DISRUPTIONS THEY ARE ALREADY TAKING PLACE -- FOR EXAMPLE IN TOKYO, WHERE THE JAPANESE ARE BUYING U.S. SORGHUM AND AVOIDING THE ARGENTINE PRODUCT BECAUSE THE BOTTOM HAS DROPPED FROM THE U.S. MARKET AND, FURTHER, THE U.S. HAS A TRANSPORT COST ADVANTAGE. "SO OUR SORGHUM WILL, OF NECESSITY, GO TO THE SOVIET UNION."

5. GRAINS BOARD AUTHORITIES AND THE SECRETARY FOR AGRICULTURE RE-CONFIRM TOO THAT ARGENTINA HAS NO MEANS OF IMPOSING DESTINATION REQUIREMENTS. AS FOR "PENALTIES FOR FALSIFICATION OF BILLS OF LADING" (A QUESTION THE GENERAL ALSO RAISED) THERE NEED BY NO FALSIFICATION: ROTTERDAM IS TRULY, FOR EXAMPLE, A COMMON DESTINATION. BUT A BILL OF LADING WILL NOT SHOW WHAT THEN HAPPENS.

6. FOREIGN MINISTER PASTOR ASKED HOW THE UNITED STATES EXPECTED TO MEET THIS PROBLEM WITH OTHER COUNTRIES. MR. RUSER REPLIED THAT INTELLIGENCE CONSULTATIONS WOULD GET AT THIS PROBLEM. EARLIER CONSULTATIONS CONVINCED US THAT INFORMAL CONTROLS CAN BE MADE EFFECTIVE -- IF THE GENERAL AGREEMENT CAN COUNT ON ARGENTINA'S COOPERATION. CANNOT ARGENTINA BROADEN ITS INTENT TO INCLUDE CONSULTATIONS WITH OTHER COUNTRIES AND FIRMS TO JOIN THIS ENFORCEMENT EXERCISE?

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PAGE 03 BUENOS 00868 01 OF 02 301617Z

7. MARTINEZ DE HOZ REITERATED HIS BELIEF THAT EXPORTING COUNTRIES CANNOT BE CONTROLLED. ("YOUR SYSTEM JUST WON'T WORK UNLESS YOU CAN COME UP WITH SOMETHING BETTER.") AND, REALISTICALLY, ARGENTINE PRODUCERS AND EXPORTERS TOO ARE OUT TO MAXIMIZE THEIR EARNINGS. ADHERENCE TO AN AGREEMENT IS, HE PROFESSED, "A FACADE" OF PRODUCING COUNTRIES. COMPLAINTS OF THE MONITORING GROUP (AN OUTCOME GENERAL GOODPASTER ALSO MENTIONED) WILL NOT BE COMPELLING. YET, HE SAID, ARGENTINA COULD OF COURSE ALLOW THE MONITORING GROUP ACCESS TO BILLS OF LADING PREPARED AT TIME OF SHIPMENT (AND NOT AT TIME OF REGISTRATION, HE REITERATED). IT WOULD THEN BE UP TO THE UNITED STATES FOR ANY FOLLOW-UP ACTION.

~~CONFIDENTIAL~~

3 of 5

~~CONFIDENTIAL~~

4 of 5

8. GENERAL GOODPASTER POINTED OUT THAT THE PRICE DIFFERENTIAL CITED BY THE ECONOMY MINISTER SEEMED TO DEPEND ON THERE BEING CONTROLLED AND UNCONTROLLED GRAIN. TO THE EXTENT THERE IS CURRENT BELIEF THEN THAT "TRADITIONAL MARKETS" WILL BE MAINTAINED IS IT NOT LIKELY THAT THE DIFFERENTIAL WOULD DISAPPEAR? MR. RUSER ASKED WHETHER ARGENTINA'S HIGH "UNCONTROLLED GRAINS" PRICE WOULD NOT TURN OUT TO LOSE ARGENTINA ITS TRADITIONAL CUSTOMERS. ALSO, A MECHANISM IS AT WORK, HE COMMENTED, WHICH DICTATES A PREMIUM PRICE ONLY TO THE EXTENT THAT THE SOVIET GOVERNMENT IS BELIEVED WILLING TO PAY AND THAT LIMITATIONS OF SHIPMENTS TO THE SOVIET MARKET ARE EFFECTIVE.

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PAGE 01 BUENOS 00868 02 OF 02 301631Z
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~~CONFIDENTIAL~~ SECTION 2 OF 2 BUENOS AIRES 0868

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9. MARTINEZ DE HOZ REPLIED THAT HE BELIEVED PRICE DIFFERENTIALS WILL LEVEL OUT IF TAMPERING WITH THE MARKET IS AVOIDED, AND THAT SUBSTITUTIONS AND ALTERED PREFERENCES WOULD ALSO TEND TO LEVEL MARKET PRICES.

10. THERE FOLLOWED A SHORT DISCUSSION ON ANY FURTHER MEASURES THAT MIGHT BE TAKEN BY ARGENTINA. MARTINEZ DE HOZ, DISCUSSING CORN DELIVERIES FOR THE END OF THIS (SOUTHERN HEMISPHERE) SUMMER POINTED OUT THAT IN TRADING WITH THE SOVIET UNION AT "HISTORICAL LEVELS" A PROVISION MUST BE INCLUDED TO ACCOUNT FOR STEADY GROWTH IN THAT TRADE. THIS POINTED TO

~~CONFIDENTIAL~~

4 of 5

~~CONFIDENTIAL~~

5 of 5

A NEED FOR FURTHER CONSULTATIONS. MARTINEZ DE HOZ COMMENTED, WITH REGARD TO EXISTING REGISTRATIONS, THAT GRAINS BOARD RULES PERMIT AMENDING WITHOUT PENALTY AMOUNTS ALREADY REGISTERED BY UP TO TEN PERCENT. "AS A GESTURE OF GOODWILL" THIS COULD BE USED TOIMPLY TO EXPORTERS THAT THEY SHOULD CUT BACK ON SHIPMENTS. (COMMENT: PRESUMABLY THE MINISTER REFERRED TO CUTBACKS ON SHIPMENTS TO THE SOVIET UNION IN CASES WHERE PRIOR REGISTRATIONS EXCEED "HISTORICAL MARKETS" ON A COMMODITY-BY-COMMODITY BASIS. END COMMENT.)

11. (COMMENT: THERE WAS A BRIEF DISCUSSION ON THE
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PAGE 02 BUENOS 00868 02 OF 02 301631Z

NEED TO WRITE A STATEMENT OF PRINCIPLES AGREED AT THE MEETINGS, GIVEN THE INTENSE INTEREST ON THE PART OF THE TWO GOVERNMENTS. MARTINEZ DE HOZ AGREED TO "A PARAGRAPH, GENERAL PHILOSOPHY, NO DETAILS." THE STATEMENT WAS SUBSEQUENTLY DELIVERED AS APRT OF A MORE GENERAL PRESS SUMMARY ISSUED BY THE FOREIGN MINISTRY. A DISCUSSION ALSO TOOK PLACE REGARDING DETAILS OF THE MEETING TO TAKE PLACE THE FOLLOWING DAY WITH PRESIDENT VIDELA AT CHAPADMALAL.)
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5 of 5

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1 of 5

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1 of 5